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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000155

SIPDIS

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TAGS: EPET EINV PGOV PINR ENRG NI
SUBJECT: NIGERIA'S FUEL CRUNCH WORSENS AMIDST STRIKE CONFUSION

REF: A. 2004 LAGOS 146
¶B. 2004 LAGOS 127
¶C. 2004 ABUJA 99
¶D. 2004 LAGOS 30
¶E. 2003 LAGOS 499

Classified By: J. GREGOIRE FOR REASONS 1.5 (B) AND (D)

¶1. (C) SUMMARY: While Nigerians try to determine if a national strike is on or off and whether or not there is a tax on gasoline (refs A, B), the country's fuel supply problems are not only clear, they are, in fact, worsening. Private marketers have scaled-back fuel imports in the face of business uncertainty, and a shortage of storage capacity has left much of the East of Nigeria without fuel. Meanwhile, international traders have reneged on GON orders, diverting cargo to more lucrative sales elsewhere. Even while the GON insists deregulation is in effect, it continues to take actions that undermine the viability of a market-driven downstream sector, and may re-introduce a subsidized market scheme. Nigerians can expect fuel queues again by the end of January. END SUMMARY.

TAX? WHAT TAX?

¶2. (SBU) In late-December, President Obasanjo announced during the presentation of his budget request that the GON would assess a 1.50 naira per liter fuel levy. According to the President, the income from this levy would be used to finance desperately needed road repairs, and accordingly, the system of poorly (and corruptly) managed tollbooths along Nigerian interstate highways would be dismantled. As of January 1, fuel retailers charged the extra naira-fifty at the pump, and tollbooths were closed.

¶3. (C) Labor, other civil society groups, and some legislators immediately assailed the measure and questioned the legality of what they dubbed a new "fuel tax." (The National Assembly's House of Representatives Finance Committee Chairman, Alhaji Farouk Lawan, told EconCounselor January 21 that the President's 2004 budget submission specified that the Executive expected to raise 45 billion naira by the new "fuel tax" in 2004.) In reality, the assessment was not a tax on fuel consumption, but rather a levy on fuel imports. According to a Mobil executive, beginning on January 1, 1.5 naira was assessed on each liter of fuel marketers offloaded at the port of Lagos, and that amount was then passed on to consumers through the pump price. (Nigeria continues to import most of the fuel it uses.) GON representatives, including Funso Kupolokun, the Group Managing Director of the Nigerian National Petroleum Corporation (NNPC), publicly defended the propriety of the measure as an existing levy that merely lapsed in enforcement, and not a new tax requiring legislative approval.

¶4. (SBU) With a Nigeria Labor Congress (NLC) strike threat looming larger, the GON began backing away from its commitment to the levy by the second week of January. The President went so far as to state in a letter to the National Assembly that the implementation of the "tax" was unintended; he merely meant to highlight a policy option. On January 20 a federal court "advised" that the fuel tax be rescinded (ref C), and the GON soon insisted it no longer assessed the levy. As proof, the GON said the pump prices at the two fuel stations operated by NNPC, one in Abuja and one in Lagos, had reverted to pre-levy prices. In fact, by Wednesday, January 21, the pump price at NNPC's station in Lagos had decreased by 1.50 naira.

¶5. (C) Jules Harvey, Texaco International's Vice President for West Africa, told Econoff on January 20 that the Petroleum Products Pricing Regulatory Agency (PPPRA) sent a notice to marketers in late December explaining the levy and how it would be assessed by the Department of Petroleum Resources (DPR). Harvey said that his company would consider the levy in effect until informed otherwise by PPPRA. A union official told Labatt that GON representatives specifically told union representatives a letter signed by President Obasanjo rescinding the levy was sent to marketers in recent days. As of January 21, private marketers' pump prices in Lagos were one naira-fifty or more higher than the NNPC price, suggesting such letters had not been received, or that marketers were still trying to recoup the cost of the

levy already paid on existing fuel stock.

SUPPLY TIGHT, AND ONLY GETTING WORSE

¶6. (C) We previously reported that Nigeria's fuel supply was tight due to infrastructure problems, poor business practices, and government regulation (ref D). According to Texaco's Harvey, private fuel marketers are importing only about 20 percent of the fuel now on the market, with NNPC importing the remaining 80 percent. (Harvey said that private marketers have been importing an average of 10 cargoes per month since October.) Harvey previously estimated that this combined volume represents only about 55 percent of Nigeria's current market demand. Harvey says his Texaco stations in the East and Northeast of Nigeria are almost always closed for lack of supply. Texaco and other private marketers have little or no storage capacity in those regions, and the volume of imports is insufficient to maintain a supply chain via tanker trucks from Lagos (the poor state of roads in the South and East also contribute to transport difficulties). Harvey said he has discussed this matter with GON officials, who have suggested that private marketers may be able to lease storage tanks from NNPC at some point in the future.

INTERNATIONAL PRESSURES

¶7. (C) Harvey noted that NNPC will likely run short of fuel by the end of January. He said international traders of fuel have reneged on contracts with NNPC to bring fuel to Nigeria. Harvey said traders who agreed to NNPC purchase offers in 2003 are now facing losses as high as one million dollars per cargo on those contracts due to higher-than-expected crude prices and high winter demand for petroleum products in the U.S. The traders are diverting cargoes slated for Nigeria to more lucrative ports. Such international market forces, combined with ongoing refinery problems, leave Nigeria with an almost identical fuel shortage situation it faced during the first two months of 2003, when fuel queues returned to the country after a three year hiatus (ref E).

¶8. (C) Harvey said NNPC's Kupolokun has decried the practice of diverting cargoes, and threatened to blacklist traders who breach contracts with NNPC, insisting the GON will never do business with such companies in the future. When asked if the international traders simply don't care if they are blacklisted by Nigeria or face penalties for breach of contract, Harvey said it is not that they don't care, but when assessing their options, they choose not to lose a known, large quantity of money in the short-term. Harvey noted that such a choice is made easier given the GON's history of blacklisting companies only to reinstate their privileges after intercessions from a Nigerian state governor or other interested party.

THE STRUGGLE CONTINUES

¶9. (C) Harvey also told Econoff that Kuplokun and Obasanjo himself have met with marketers in recent weeks to continue ironing out downstream deregulation; Kupolokun actually came to Harvey's office in Lagos in mid-January. Harvey says that Kupolokun has tried to win concessions from the private marketers over pricing, and even tried to persuade them to absorb the fuel levy without passing the cost on to consumers at the pump. Nonetheless, Harvey said both men generally agree with the marketers' assertion that the companies should not be expected to operate in Nigeria at a loss. Harvey said Obasanjo, while appearing sympathetic to the business realities of the marketers, also expressed his frustration over the pressures he faces to scale-back deregulation. Harvey said Kupolokun is clearly still in line with Obasanjo's thinking on this issue, but is forced by political realities to try to negotiate concessions regarding price caps and profit margins. Harvey described Kupolokun as "very good and straight forward" as NNPC's chief executive, still capable of pressing forward with deregulation.

¶10. (C) Harvey noted one option floated by the GON that smacks of pre-October government encumbrance of the downstream sector. He said some GON officials have suggested that to maintain the semblance of deregulation during this period of tumultuous world prices and domestic unions challenges, private marketers would be encouraged to continue importing fuel by having NNPC purchase their cargoes at market rates. Under this plan, NNPC would then sell the fuel back to the marketers at a reduced price, which would be passed on to consumers. In effect, the GON would return to subsidized fuel sales, artificial pricing, and a closely regulated downstream sector. Harvey did not say how seriously this option is being considered by either the GON, or the industry.